

Message Text

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ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 TRSE-00 XMB-02 OPIC-03 SP-02 CIEP-01

LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01

DODE-00 PM-04 H-02 L-03 PA-01 PRS-01 NSCE-00 SSO-00

USIE-00 INRE-00 OES-06 FEA-01 INT-05 AGRE-00 /095 W

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FM AMEMBASSY MEXICO

TO SECSTATE WASHDC IMMEDIATE 8964

INFO ALL US CONSULATES IN MEXICO VIA POUCH

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E. O. 11652: N/A

TAGS: EGEN, MX

SUBJECT: ECONOMIC ASPECTS OF LOPEZ PORTILLO'S INAUGURAL ADDRESS

REF: A) MEXICO 15168; B) MEXICO 15157

1. SUMMARY. TO THE EXTENT THAT WORDS CAN RESTORE CONFIDENCE, PRESIDENT LOPEZ PORTILLO'S INAUGURAL SPEECH OF DEC. 1 SHOULD HELP. HE SET FORTH A SERIES OF MEASURES TO HELP MEXICO'S BALANCE OF PAYMENTS, INVESTMENT, AND SAVINGS. HE PLEDGED CONTINUED FREE CONVERTIBILITY. END SUMMARY.

2. TO MEET THE IMPERATIVE NEED TO REESTABLISH ECONOMIC CONFIDENCE IN MEXICO, LOPEZ PORTILLO'S CHOICE OF CABINET MINISTERS AND HIS INAUGURAL ADDRESS HAD BEEN EAGERLY AWAITED AS THE TWO MOST IMMEDIATE INDICATIONS OF THE DIRECTION IN WHICH HE WOULD SEEK TO GUIDE THE MEXICAN ECONOMY. HIS CHOICES OF MINISTERS WHICH WERE ANNOUNCED LAST NIGHT(REFTEL A), LEAVE US WITH SOME RESERVATIONS (BEING REPORTED SEPTTEL). WE GIVE HIM HIGH MARKS, HOWEVER, FOR HIS INAUGURAL ADDRESS (REFTEL B). THE MAINECONOMIC POINTS ARE SUMMARIZED IN THE FOLLOWING

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PARAGRAPHS.

3. EXCHANGE RATE AND SYSTEM: CONTRARY TO SOME PREVIOUS EXPECTATIONS, JLP NEITHER ANNOUNCED A NEW PESO/DOLLAR PARITY NOR PROMISED TO ESTABLISH

ONE IN THE FUTURE. HE DEVOTED AN IMPRESSIVE AMOUNT OF TIME TO EDUCATING THE PUBLIC ON THE REAL MEANING OF DEVALUATION. EFFORTS

WOULD BE MADE TO DESIGN MEASURES TO DISCOURAGE CAPITAL FLIGHT.

4. BALANCE OF PAYMENTS: NO DIRECT MENTION WAS MADE OF MEXICO'S OVERWHELMING FOREIGN DEBT, BUT JLP PROMISED THAT BORROWING ABROAD BY THE PUBLIC SECTOR WOULD HENCEFORTH BE LIMITED FOR CAPITAL GOODS ONLY. MEASURES AFFECTING THE PRIVATE SECTOR WERE LESS SPECIFIC, BUT IT APPEARS THAT MOVES WILL BE MADE TO SUBSTITUTE TARIFF PROTECTION FOR IMPORT QUOTAS. ATTENTION WILL BE GIVEN TO INCREASING LABOR INTENSIVE AGRICULTURAL EXPORTS.

5. MONETARY POLICY: THERE WAS LITTLE DISCUSSION PER SE, BUT THE "DOLLARIZATION" OF THE MEXICAN ECONOMY WAS DESCRIBED AS A THREAT TO MEXICAN SOVEREIGNTY. TWO INTERESTING PROPOSALS WERE MADE FOR THE CREATION OF "STORE OF VALUE" INSTRUMENTS, PRESUMABLY TO WEAN MEXICANS AWAY FROM HOLDING DOLLARS. ONE PROPOSAL CALLS FOR THE MINTING OF TRADITIONAL MEXICAN SILVER COINS WHICH HE CALLED "OUR STRONG PESOS". THE OTHER PROPOSAL IS FOR THE ISSUANCE OF NEW LONG-TERM

BONDS BACKED BY THE PRODUCTION OF BASIC RAW MATERIAL AND LINKED TO THE WORLD MARKET PRICE OF SILVER AND OIL. JLP MADE SOME INTERESTING COMMENTS WHICH SEEMED TO AFFECT THE FUTURE ABILITY OF STATE GOVERNMENTS TO BORROW ON THEIR OWN.

6. INVESTMENT POLICY: THE PRESIDENT SAID THAT THE GOM WOULD SEEK TO ORIENT INVESTMENT TO THE FOLLOWING PRIORITIES OF SECTORS: AGRICULTURE AND LIVESTOCK, ENERGY, PETROCHEMICALS MINING, STEEL, CAPITAL GOODS, TRANSPORTATION AND BASIC CONSUMER GOODS. HE SEEMED TO MAKE A MUTED CALL FOR MORE FOREIGN INVESTMENT.

7. TAX POLICY: TAX RATES SHOULD BE ADJUSTED FOR INFLATION. PROGRESSIVE TAXATION OF INCOMES WILL BE REINSTITUTED. IN AN EFFORT TO ENCOURAGE REINVESTMENT OF EARNINGS, HIGHER TAXES WILL BE APPLIED TO COMPANIES' DISTRIBUTED PROFITS. EMPHASIS WAS LIMITED OFFICIAL USE

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GIVEN TO ADMINISTRATIVE REFORM. THE PRESIDENT APPEARED TO OPEN THE DOOR FOR A FORM OF REVENUE SHARING WITH STATES.

8. WAGES AND PRICES: THE PRESIDENT STRESSED THAT HE WISHED TO AVOID FURTHER DETERIORATION OF INCOME DISTRIBUTION. SALARIES SHOULD BE TIED TO AN IMPROVED COST OF LIVING INDEX WHICH SHOULD BE DEVELOPED. STRONG EFFORTS SHOULD BE MADE, HOWEVER, TO CONTROL INFLATION. A SYSTEM WILL BE PROPOSED TO GIVE SALARY INCREASES

FOR INCREASED PRODUCTIVITY, BUT SUCH INCREASES ARE TO BE CHanneLED PARTIALLY OR WHOLLY TOWARD SHARES SUCH AS THE CAPITAL STOCK OF PROPOSED JOINT WORKERS INVESTMENT BANK. THE PRESIDENT DEMONSTRATED A GOOD GRASP OF BASIC RELATIONSHIP AMONG WAGES, COSTS AND PRICES.

9. ADMINISTRATIVE REFORMS: THE PRESIDENT PROPOSED THREE NEW LAWS WHOSE

AFFECT ON THE ECONOMY IS PRESENTLY HARD TO ASSESS. A GOVERNMENT EXPENDITURE LAW IS TO GIVE PROGRAMMATIC ORIENTATION TO GOM EXPENDITURES. A SINGLE MINISTRY IS TO BE PLACED IN CHARGE OF BUDGET AND PUBLIC EXPENDITURES. NOTE: THIS SEEMS TO BE DESIGNED AFTER THE USG'S OMB AND MAY REFLECT THE EARLIER EFFORTS OF THE EMBASSY AND OMB TO RESPOND TO EXTENSIVE REQUESTS ON HOW OMB OPERATES. A PUBLIC DEBT LAW WOULD SEEK TO GIVE THE MEXICAN CONGRESS BETTER CONTROL OVER THE EXECUTIVE EXPENDITURES, PARTLY BY MAKING MORE INFORMATION AVAILABLE TO THE PUBLIC ON THE GOM'S PUBLIC DEBT. THE ADMINISTRATION ORGANIZATION LAW SETS FORTH THE CHANGES DEMANDED IN SECTORIAL STRUCTURE AND RECLASSIFIES GOVERNMENT MINISTRIES.

10. AGRICULTURAL POLICY: THIS SECTION WAS WEAKER THAN WE HAD EXPECTED. THE PRESIDENT GAVE EMPHASIS TO MEXICO'S SEEKING SELF SUFFICIENCY IN FOOD. ATTENTION IS TO BE PAID TO TECHNICAL AND SOIL RESEARCH IN TROPICAL AGRICULTURAL LANDS. THE PRESIDENT'S FUTURE POLICY ON AGRICULTURAL REFORM DID NOT COME THROUGH CLEARLY. HE STATED THAT "LAND REFORM IS MEXICO".

11. INDUSTRIAL DEVELOPMENT: JLP SAID HE WOULD PLACE PARTICULAR EMPHASIS ON STIMULATING AGRO-INDUSTRY, MINING, AND THE STEEL INDUSTRY BY "GIVING SUPPORT TO SMALL AND MEDIUM-SIZED INDUSTRIAL AND MINING OPERATIONS". HE WOULD IMPROVE UPON "SIMPLE IMPORT-SUBSTITUTION POLICIES BY INSTITUTING PROGRAMS FOR VERTICAL INTEGRATION

IN SPECIFIC FIELDS." A SPECIALIZED MINISTRY WILL BE SET UP TO LIMITED OFFICIAL USE

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